

Message Text

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PAGE 01 QUITO 01361 041414Z
ACTION ARA-14

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COME-00 DODE-00 EB-08 DOE-11 H-02 INR-10 INT-05
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SP-02 SS-15 STR-07 TRSE-00 ACDA-12 /131 W
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E.O. 11652: N/A
TAGS: ECON, ENRG, EC
SUBJECT: GOE LAYS GROUNDWORK FOR RAISING PRICES OF PETROLEUM
DERIVATIVES

BEGIN SUMMARY: THE GOE FINANCE MINISTER HAS LAUNCHED A
CAMPAIGN TO PREPARE PUBLIC OPINION FOR A SHARP RISE IN
PRICES OF PETROLEUM DERIVATIVES IN THE FACE OF HISTORI-
CALLY VEHEMENT OPPOSITION BY PUBLIC TRANSPORT WORKERS,
LEFTIST STUDENTS, AND OTHER ELEMENTS. IN A SERIES OF
PUBLIC STATEMENTS, HE STRESSED THE CURRENT SUBSIDIZED
PRICES ARE COSTING THE GOE SOME \$200 MILLION
ANNUALLY. END SUMMARY

1. GOE FINANCE MINISTER SANTIAGO SEVILLA IN A PUBLIC
STATEMENT FRONT-PAGED IN LOCAL NEWSPAPERS ON FEBRUARY
28 CAME OUT STRONGLY IN FAVOR OF RETAIL PRICE HIKES ON
ALL PETROLEUM DERIVATIVES SOLD IN THE COUNTRY, ARGUING
THAT THESE HIKES WOULD STAVE OFF EVEN GREATER COSTS TO
ECUADOR IN THE FUTURE.

2. PRESENT PRICES ON PETROLEUM PRODUCTS HAVE BEEN
FROZEN SINCE 1959, WITH THE COST FOR THE BEST AVAILABLE
GASOLINE MERELY 18.6 CENTS (US) PER GALLON (EQUIVALENT).
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SEVILLA'S STATEMENT STRESSED THAT THESE LOW PRICES DO
NOT BEGIN TO COVER THE COSTS OF EXTRACTING, TRANSPORTING,
REFINING, AND MARKETING DOMESTIC CRUDE LET ALONE THE COST
OF IMPORTING REFINED PRODUCTS WHICH REFLECT THE PRESENT
WORLD VALUE OF PETROLEUM. THE FINANCE MINISTER ALSO
NOTED THE RESULTANT LOSSES TO THE CENTRAL GOVERNMENT
BUDGET AND THE UNDERCAPITALIZATION OF THE STATE PETRO-

LEUM CORPORATION(CEPE).

3. SEVILLA ASSERTED THAT THE RECENT RAPID GROWTH IN ECUADOREAN DOMESTIC CONSUMPTION OF PETROFUELS OF ABOUT 22 PERCENT ANNUALLY IS LARGELY ATTRIBUTABLE TO THE LOW PRICES. AT THIS RATE OF CONSUMPTION GROWTH, HE CONTINUED, IN LESS THAN SIX YEARS ECUADOR WOULD NO LONGER BE ABLE TO EXPORT PETROLEUM, AND THE COUNTRY'S MAJOR SOURCE OF FOREIGN EXCHANGE EARNINGS WOULD THUS BE CUT OFF.

4. SEVILLA ALSO CRITICIZED THE PRESENT LOW SALES OF \$1.48 PER BARREL OF CRUDE DELIVERED BY CEPE AND TEXACO FOR DOMESTIC CONSUMPTION. HE SAID THE CRUDE USED BY THE LOCAL REFINERIES SHOULD REFLECT THE CURRENT INTRINSIC INVENTORY VALUE.

5. OPPONENTS OF THE GOE'S PLANS TO RAISE PRICES CAME UNDER SPECIAL ATTACK BY SEVILLA, ALTHOUGH HE DID NOT IDENTIFY THEM. HE ACCUSED THEM OF IRRESPONSIBLE DEMAGOGUERY, DISTORTION OF FACTS, AND CREATING ILL WILL AGAINST THE GOE IN ORDER TO GAIN EASY POPULARITY AND CHEAP APPLAUSE. HE LABELLED THEIR CALLS FOR CONTINUED LOW PRICES AN OSTRICH POLICY WHICH WOULD LEAD TO ENERGY ANDECONOMIC PROBLEMS IN THE NOT-TOO-DISTANT FUTURE.

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6. SEVILLA CONCEDED THE NEED TO MAINTAIN FOR A "REASONABLE" TIME PUBLIC TRANSPORT SUBSIDIES ON GASOLINE AND DIESEL. HE ADDED THAT THESE SUBSIDIES WILL BE EFFECTED BY METHODS THAT HAVE BEEN SUCCESSFUL IN OTHER COUNTRIES, BUT HE GAVE NO DETAILS.

7. THE MINISTER ADDED THE GOVERNMENT WILL HAVE TO AWAIT A FAVORABLE PUBLIC CONSENSUS BEFORE PUTTING INTO PRACTICE THE PRICE HIKE NEEDED FOR THE COMMON GOOD.

8. IN SUBSEQUENT STATEMENTS, SEVILLA ESTIMATED THE COST TO THE GOE OF THE PRESENT LOW PRICES AT \$200 MILLION A YEAR.

9. COMMENT: IN PAST YEARS, ATTEMPTS TO RAISE PETROFUEL PRICES HAVE TOUCHED OFF STREET DEMONSTRATIONS, AND IN ONE CASE TOPPLED A GOVERNMENT.

10. FURTHER EMBASSY COMMENT FOLLOWS IN SEPTTEL.
KEMP

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Message Attributes

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Disposition History: n/a
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Document Unique ID: 00
Drafter: n/a
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